

## Message Text

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ACTION EUR-12

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SUBJECT: EC COMMISSION UPDATES ITS ASSESSMENT OF THE EC'S  
ECONOMY SITUATION

REF: EC BRUSSELS A-053

1. SUMMARY: IN PREPARATION FOR THE DUBLIN COUNCIL OF EUROPE AND EC COUNCIL (FINANCE) MEETINGS, THE EC COMMISSION HAS UPDATED ITS ASSESSMENT OF THE EC ECONOMIC SITUATION. CURRENT PROJECTIONS REVISE DOWNWARD THE COMMUNITY'S GNP GROWTH RATE TO 1-1.5 PERCENT IN 1975 AND FORESEE AN OVERALL BALANCE OF PAYMENT DEFICIT ON CURRENT ACCOUNT OF \$10-11 BILLION. THE RATE OF PRICE INFLATION WILL VARY WIDELY AMONG THE MEMBER STATES. ECONOMIC DIFFERENCES WITHIN THE EC WILL LIKELY PERSIST UNLESS MEASURES ARE TAKEN TO CORRECT STRUCTURAL PROBLEMS IN THE DEFICIT COUNTRIES. END SUMMARY.

2. EC COMMISSION OFFICIALS PROVIDED US ON A CONFIDENTIAL BASIS THEIR MOST RECENT ECONOMIC ASSESSMENT OF THE COMMUNITY. THIS ASSESSMENT WAS UNDERTAKEN IN PREPARATION FOR THE DUBLIN COUNCIL OF EUROPE MEETING AND THE FOUR-MONTH ECONOMIC REVIEW WHICH WILL BE PRESENTED TO THE EC COUNCIL (FINANCE) ON MARCH 18. COMMISSION OFFICIALS CONCEDE THAT THE PUBLIC DOCUMENTS FOR  
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THSE MEETINGS ARE RELATIVELY "INNOCUOUS". THEIR INTERNAL

ASSESSMENT, HOWEVER, INDICATES A CONTINUED DECLINE IN THE EC'S ECONOMIC SITUATION, AS COMPARED WITH THE COMMISSION'S ASSESSMENT OF DECEMBER 1974 (SEE REF A).

3. GNP AND UNEMPLOYMENT FIGURES: THE COMMISSION IS FORECASTING A GNP GROWTH RATE FOR 1975 OF 1.5 PERCENT FOR THE EC. (IN VIEW OF THE WORLDWIDE ECONOMIC DECLINE, ESPECIALLY IN THE US, THE DIRECTOR FOR SHORT-TERM ECONOMIC TRENDS BELIEVES THE EC GROWTH RATE MAY ONLY REACH 1 PERCENT.) THE GROWTH RATE AMONG MEMBER STATES BREAKS DOWN AS FOLLOWS: FRG, 1-1.5 PERCENT; FRANCE, 2.5 PERCENT; THE UK, 2 PERCENT; THE NETHERLANDS, 2 PERCENT; BELGIUM, 1.5 PERCENT; AND ITALY, -1-1.5 PERCENT. (COMMISSION OFFICIALS SAY THAT THE BANK OF ITALY IS NOW ESTIMATING A POSSIBLE FALL IN THE ITALIAN GNP OF -2.5 PERCENT THIS YEAR.) THE EC ECONOMY IS EXPECTED TO BOTTOM OUT, HOWEVER, EARLY IN THE SECOND HALF OF THE YEAR AND POSSIBLY REACH AN OVERALL GROWTH RATE OF 3 PERCENT BY DECEMBER 1975. THE UNEMPLOYMENT RATE OF THE ACTIVE POPULATION WILL AVERAGE ABOUT 3 PERCENT FOR THE YEAR BUT IT COULD REACH 4 PERCENT BEFORE BEGINNING TO TURN DOWNWARD.

4. CURRENT ACCOUNT DEFICIT: THE COMMISSION BELIEVES THE EC'S OVERALL BALANCE OF PAYMENT DEFICIT ON CURRENT ACCOUNT IN 1975 WILL BE -\$10-11 BILLION. THESE ESTIMATES, HOWEVER, ARE CALCULATED AT 1974 EXCHANGE RATES AND WILL BE REVISED. THE FOLLOWING IS THE BREAKDOWN AMONG MEMBER STATES: FRG, \$6-7 BILLION; THE NETHERLANDS, \$2 BILLION; BELGIUM, ZERO; THE UK, -\$9 BILLION; ITALY, -4.3 BILLION; FRANCE, -\$4.6 BILLION; IRELAND, -\$0.6 BILLION; AND DENMARK, -\$1-1.5 BILLION.

5. SHARP DIFFERENCES IN PRICE INCREASES: THE INCREASE IN THE CONSUMER PRICE INDICES OF THE MEMBER STATES WILL RANGE FROM 6 TO 20 PERCENT THIS YEAR. THE COMMISSION ESTIMATES THAT THE CIP OF THE UK AND IRELAND WILL RISE BY ABOUT 20 PERCENT THIS YEAR ON AN AVERAGE ANNUAL BASIS. ITALY'S WILL ALSO BE HIGH, BUT SHOULD SHOW CONSIDERABLE IMPROVEMENT TOWARD THE YEAR END. COMMISSION OFFICIALS STATE PRIVATELY THAT THE EC, IN FACT, OUGHT TO CALL UPON BOTH THE UK AND IRELAND TO REDUCE THEIR BUDGETARY DEFICITS SO AS TO LESSEN THE PRESSURE ON THE RISE IN PRICES. HOWEVER, SUCH A RECOMMENDATION LIMITED OFFICIAL USE

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IS NOT POLITICALLY FEASIBLE BECAUSE OF THE POSSIBLE REPERCUSSIONS SUCH A RECOMMENDATION MIGHT HAVE ON THE UPCOMING BRITISH REFERENDUM.

6. ECONOMIC POLICY OBJECTIVES: COMMISSION OFFICIALS BELIEVE IT IS TOO EARLY TO FORECAST WHETHER MORE EXPANSION IS NEEDED IN THE MEMBER STATES ENJOYING A BALANCE OF PAYMENTS SURPLUS. CONSEQUENTLY, THE COMMISSION IS TAKING THE POSITION

THAT THE EC SHOULD WAIT SEVERAL MONTHS, UNTIL APRIL OR MAY, BEFORE MAKING ANY FURTHER RECOMMENDATIONS REGARDING THE SURPLUS COUNTRIES. THE COMMISSION BELIEVES STRUCTURAL CHANGES ARE NEEDED TO CORRECT THE PERSISTENT UNEMPLOYMENT PROBLEMS OF MEMBER STATES SUFFERING FROM STAGFLATION. GENERAL ECONOMIC EXPANSION IS NOT THE SOLUTION; INSTEAD, SELECTIVE INVESTMENTS ARE NEEDED IN SECTORS THAT CAN RESPOND TO EXPORT OPPORTUNITIES. COMMISSION OFFICIALS BELIEVE THE CURRENT ECONOMIC POLICIES OF SOME MEMBER STATES, ESPECIALLY THE UK AND IRELAND, WILL ONLY AGGRAVATE THE EXISTING ECONOMIC DIFFERENCES WITHIN THE EC. THESE POLICY CONSIDERATIONS ARE MENTIONED ONLY IN A GENERAL WAY IN THE COMMISSION'S ECONOMIC REPORT FOR THE DUBLIN MEETING. THE REPORT AVOIDS CRITICIZING THE ECONOMIC POLICIES OF ANY MEMBER STATE. GREENWALD

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